

**CITY OF NEWARK**  
**NEW CASTLE COUNTY, DELAWARE**  
**AUDIT REPORT**  
**DECEMBER 31, 2005**

**CITY OF NEWARK**  
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## INDEPENDENT AUDITORS' REPORT

December 6, 2006

Members of City Council  
City of Newark  
Newark, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Newark, Newark, Delaware, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2004 financial statements and, in our report dual-dated July 8, 2005 and October 6, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Newark, Newark, Delaware, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006 on our consideration of the City of Newark's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of City Council  
City of Newark

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The City of Newark has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newark's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane Thornton & Company*  
BARBACANE, THORNTON & COMPANY

**CITY OF NEWARK  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

	Primary Government		Totals	
	Governmental Activities	Business-type Activities	2005	2004
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 1,448,878	\$ 461,321	\$ 1,910,199	\$ 3,057,108
Investments	7,415,920	9,667,529	17,083,449	28,450,422
Accounts receivable, net	1,367,288	3,783,248	5,150,536	5,550,583
Taxes receivable	253,303	-	253,303	254,681
Due from other governments	-	330,000	330,000	-
Inventories	39,235	855,875	895,110	793,029
Prepaid items and deferred charges	221	-	221	5,400
Bond issue costs	3,692	-	3,692	3,692
<b>Total current assets</b>	<b>10,528,537</b>	<b>15,097,973</b>	<b>25,626,510</b>	<b>38,114,875</b>
<b>Noncurrent Assets:</b>				
<b>Capital assets, net:</b>				
Land	4,989,380	8,788,127	13,777,507	13,777,507
Construction in progress	-	15,710,804	15,710,804	10,159,095
Buildings	5,983,568	6,973,576	12,957,144	13,386,693
Improvements	8,854,278	16,261,784	25,116,062	24,593,995
Machinery and Equipment	3,210,321	854,890	4,065,211	3,875,719
Bond issue costs	11,074	-	11,074	14,768
<b>Total noncurrent assets</b>	<b>23,048,621</b>	<b>48,589,181</b>	<b>71,637,802</b>	<b>65,807,775</b>
<b>Total assets</b>	<b>\$ 33,577,158</b>	<b>\$ 63,687,154</b>	<b>\$ 97,264,312</b>	<b>\$ 103,922,650</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 215,643	\$ 3,914,143	\$ 4,129,786	\$ 2,262,818
Customer deposits	185,738	498,855	684,593	673,978
Compensated absences	62,557	6,715	69,272	67,640
Due to other governments	330,000	39,103	369,103	193,448
Accrued interest payable	48,780	165,952	212,732	218,750
Notes payable	-	26,587	26,587	32,466
Bonds payable	495,000	725,000	1,220,000	1,215,000
Bond premium	-	6,474	6,474	8,474
Other current liabilities	12,365	-	12,365	14,543
<b>Total current liabilities</b>	<b>1,348,083</b>	<b>5,382,829</b>	<b>6,730,912</b>	<b>4,685,117</b>
<b>Noncurrent liabilities:</b>				
Compensated absences	370,488	53,980	424,468	398,049
Deferred revenue	-	3,548	3,548	2,798
Notes payable	-	10,941	10,941	37,001
Bonds payable	3,375,000	15,800,000	19,175,000	20,395,000
Bond premium	-	103,592	103,592	110,066
<b>Total noncurrent liabilities</b>	<b>3,745,488</b>	<b>15,972,059</b>	<b>19,717,547</b>	<b>20,942,914</b>
<b>Total liabilities</b>	<b>5,093,571</b>	<b>21,354,888</b>	<b>26,448,459</b>	<b>25,628,031</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	19,167,547	31,916,587	51,084,134	49,444,430
Restricted	-	-	-	4,998,277
Unrestricted	9,316,040	10,415,679	19,731,719	23,851,912
<b>Total net assets</b>	<b>28,483,587</b>	<b>42,332,266</b>	<b>70,815,853</b>	<b>78,294,619</b>
<b>Total liabilities and net assets</b>	<b>\$ 33,577,158</b>	<b>\$ 63,687,154</b>	<b>\$ 97,264,312</b>	<b>\$ 103,922,650</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities
<b>Primary government:</b>						
Governmental activities:						
General Government	\$ 4,885,612	\$ 1,487,235	\$ 336,457	\$ -	\$ (3,091,920)	\$ (3,091,920)
Public Safety	8,380,903	614,251	301,838	-	(7,464,814)	(7,464,814)
Public Works	5,185,938	345,565	970,561	-	(3,869,812)	(3,869,812)
Community Development	348,775	-	348,775	-	-	-
Culture and Recreation	1,979,929	508,156	120,985	27,300	(1,323,488)	(1,323,488)
Interest Expense	154,763	-	-	-	(154,763)	(154,763)
Total governmental activities	<u>20,946,920</u>	<u>2,935,207</u>	<u>2,079,616</u>	<u>27,300</u>	<u>(15,904,797)</u>	<u>(15,904,797)</u>
Business-type activities:						
Electric	36,021,168	34,773,723	-	-	-	(1,247,445)
Water	3,810,584	4,658,273	-	581,326	-	1,429,035
Sewer	3,402,353	3,293,750	-	3,883	-	(104,740)
Parking	508,099	646,538	-	-	-	140,439
Total business-type activities	<u>43,742,104</u>	<u>43,374,284</u>	<u>-</u>	<u>585,189</u>	<u>217,289</u>	<u>217,289</u>
Total primary government	<u>\$ 84,689,104</u>	<u>\$ 46,309,491</u>	<u>\$ 2,079,616</u>	<u>\$ 612,489</u>	<u>(15,904,797)</u>	<u>(15,687,508)</u>
<b>General Revenues</b>						
Taxes:						
Real estate taxes					3,654,026	3,654,026
Real estate transfer taxes					2,291,841	2,291,841
Franchise					283,799	283,799
Fines and Forfeits					1,846,455	1,846,455
Investment earnings					255,169	255,169
Decrease in fair value of investments					(220,807)	(220,807)
Miscellaneous					-	-
Gain (Loss) on sale of capital assets					(4,424)	6,474
Transfers					9,489,197	(9,489,197)
Total General Revenues and Transfers					<u>17,395,256</u>	<u>8,208,742</u>
Change in Net Assets					<u>1,490,459</u>	<u>(7,476,766)</u>
Net Assets - Beginning of Year					<u>26,993,128</u>	<u>78,294,619</u>
Net Assets - End of Year					<u>\$ 28,483,587</u>	<u>\$ 70,815,853</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>Major Funds</u>		<u>Other Governmental Funds</u>	<u>Totals</u>	
	<u>General</u>	<u>Capital Projects</u>		<u>2005</u>	<u>2004</u>
<b>ASSETS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 367,447	\$ 173,203	\$ 784,518	\$ 1,325,168	\$ 355,517
Investments	1,550,000	4,185,557	1,646,341	7,381,898	7,754,152
Accounts receivable	552,417	-	814,871	1,367,288	1,742,356
Taxes receivable	253,303	-	-	253,303	254,661
Due from other funds	-	405,981	-	405,981	-
Inventory	-	-	22,051	22,051	14,993
Prepaid items	221	-	-	221	5,400
<b>Total assets</b>	<b>\$ 2,723,388</b>	<b>\$ 4,764,741</b>	<b>\$ 3,267,781</b>	<b>\$ 10,755,910</b>	<b>\$ 10,127,079</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities:</b>					
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 256,145
Accounts payable	151,204	3,850	16,612	171,666	353,254
Customer deposits	185,738	-	-	185,738	195,433
Deferred revenue	1,830,882	-	-	1,830,882	1,740,608
Due to other funds	605,981	-	130,000	735,981	-
Other liabilities	-	-	12,088	12,088	14,287
<b>Total liabilities</b>	<b>2,773,805</b>	<b>3,850</b>	<b>158,700</b>	<b>2,936,355</b>	<b>2,559,707</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Capital projects	-	4,760,891	1,648,599	6,409,490	6,482,586
Debt service	-	-	48,619	48,619	48,303
Law enforcement	-	-	535,711	535,711	495,622
Streets	-	-	724,930	724,930	372,357
Parks and recreation	-	-	153,222	153,222	131,483
Unreserved (Deficit)	(50,417)	-	-	(50,417)	39,041
<b>Total fund balances</b>	<b>(50,417)</b>	<b>4,760,891</b>	<b>3,109,081</b>	<b>7,819,555</b>	<b>7,567,372</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,723,388</b>	<b>\$ 4,764,741</b>	<b>\$ 3,267,781</b>	<b>\$ 10,755,910</b>	<b>\$ 10,127,079</b>

The accompanying notes are an integral part of these financial statements.

**City of Newark**  
**Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets**  
**December 31, 2005**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 7,819,555</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Also excluded are \$588,644 of internal service capital assets accounted for in the following line:	22,448,903
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Internal service funds are used by management to charge the costs of the operation of machinery, vehicle and building maintenance provided to other departments of the City on a cost-reimbursement basis. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets	710,637
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Other long term assets such as bond issue costs are not available to pay for current period expenditures and, therefore, are deferred in the funds	14,766
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Some of the Township's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	1,830,605
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds Payable	(3,870,000)
Compensated absences	(424,099)
Accrued interest payable	(48,780)
<b>Net assets of governmental activities</b>	<b>\$ 28,483,587</b>

The accompanying notes are an integral part of these financial statements.



**CITY OF NEWARK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Major Funds</b>			<b>Totals</b>	
	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>2005</b>	<b>2004</b>
<b>REVENUES</b>					
Taxes:					
Property	\$ 3,563,753	\$ -	\$ -	\$ 3,563,753	\$ 3,432,231
Real estate transfer	2,291,841	-	-	2,291,841	1,810,110
Franchise	283,799	-	-	283,799	275,102
Licenses and permits	1,529,528	-	-	1,529,528	1,621,234
Fines, forfeits and costs	1,594,150	-	52,305	1,646,455	1,329,392
Interest, dividends and rents	95,412	109,935	49,822	255,169	260,686
Intergovernmental revenues	309,545	27,300	1,566,071	1,902,916	2,973,666
Charges for services	1,380,448	-	25,235	1,405,681	1,337,665
Subvention - University of Delaware	204,000	-	-	204,000	197,300
<b>Total revenues</b>	<b>11,252,472</b>	<b>137,235</b>	<b>1,693,433</b>	<b>13,083,140</b>	<b>13,237,386</b>
<b>EXPENDITURES</b>					
Current:					
General Government	4,314,201	-	-	4,314,201	4,041,046
Public Safety	7,816,728	-	212,318	8,029,046	7,491,990
Public Works	3,028,468	-	1,631,959	4,660,427	4,489,928
Community Development	-	-	349,775	349,775	520,893
Culture and recreation	2,090,778	-	12,138	2,102,916	2,050,359
Change in fair value of investments	60,465	116,145	44,197	220,807	39,786
Debt Service:					
Principal	-	-	505,000	505,000	480,000
Interest	-	-	157,089	157,089	208,542
Capital Outlay	-	2,003,627	-	2,003,627	1,278,621
<b>Total expenditures</b>	<b>17,310,640</b>	<b>2,119,772</b>	<b>2,912,476</b>	<b>22,342,888</b>	<b>20,601,165</b>
<b>(Deficiency) of revenues (under) expenditures</b>	<b>(6,058,168)</b>	<b>(1,982,537)</b>	<b>(1,219,043)</b>	<b>(9,259,748)</b>	<b>(7,363,779)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	8,967,361	2,117,508	1,862,405	12,947,274	13,268,700
Transfers out	(3,021,385)	-	(438,692)	(3,458,077)	(5,714,202)
Proceeds from the sale of capital assets	22,734	-	-	22,734	84,398
Refunding bonds issued	-	-	-	-	2,040,000
Payment to be refunded bond escrow agent	-	-	-	-	(2,005,000)
Bond issuance costs	-	-	-	-	(22,150)
<b>Total other financing sources and uses</b>	<b>5,968,710</b>	<b>2,117,508</b>	<b>1,425,713</b>	<b>9,511,931</b>	<b>7,651,744</b>
<b>Net change in fund balances</b>	<b>(89,458)</b>	<b>134,971</b>	<b>206,670</b>	<b>252,183</b>	<b>287,965</b>
Fund balances - January 1	39,041	4,625,920	2,902,411	7,567,372	7,279,407
Fund balances (Deficit) - December 31	\$ (50,417)	\$ 4,760,891	\$ 3,109,081	\$ 7,819,555	\$ 7,567,372

The accompanying notes are an integral part of these financial statements.

**City of Newark**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2005**

**Net Changes in Fund Balances - Total Governmental Funds** **\$ 252,183**

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets (\$2,103,126) is allocated over  
their estimated useful lives as depreciation expense (\$1,471,039). This is the amount  
by which depreciation exceeded capital outlays in the current period. 632,087

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds. 90,274

The net effect of various miscellaneous transactions involving capital assets  
(i.e., sales, trade-ins, and donations) is to decrease net assets. (27,158)

Repayment of debt principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net assets:  
    Bond principal 505,000  
    Accrued interest payable 6,018

The issuance of long-term debt provides current financial resources to governmental  
funds, while the repayment of the principal of long-term debt consumes the current  
financial resources of governmental funds. Neither transaction, however, has any effect on  
net assets. Also, governmental funds report the effect of bond issuance costs when the debt is  
first issued, whereas these amounts are deferred and amortized in the statement of  
activities. (3,692)

Some expenses reported in the statement of activities do not require the use  
of current financial resources and therefore are not reported as expenditures  
in the governmental funds:  
    Compensated absences (23,239)

Internal service funds are used by management to charge the costs of the operation  
of machinery, vehicle and building maintenance provided to other departments of the  
City on a cost-reimbursement basis. The net revenue of certain activities of internal  
service funds is reported with governmental activities 58,986

**Change in Net Assets of Governmental Activities** **\$ 1,490,459**

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**

	Original Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Real estate - current	\$ 3,540,000	\$ 3,526,776	\$ (13,224)
Real estate - delinquent and interest	25,000	36,977	11,977
Real estate - transfer	1,400,000	2,291,841	891,841
Franchise	283,250	283,799	549
Licenses and permits	1,406,000	1,529,526	123,526
Fines, forfeits and costs	1,297,500	1,594,150	296,650
Interest, dividends and rents	100,000	95,412	(4,588)
Intergovernmental revenues	389,750	309,545	(80,205)
Charges for services/fees	1,301,780	1,380,446	78,666
Subvention - University of Delaware	204,000	204,000	-
<b>Total revenues</b>	<u>9,947,280</u>	<u>11,252,472</u>	<u>1,305,192</u>
<b>EXPENDITURES</b>			
Current:			
General government:			
Finance department	1,774,203	1,683,549	90,654
Planning	719,771	771,890	(52,119)
Administration	659,120	691,496	(32,376)
Legislative	892,886	835,702	57,184
Judicial	309,846	331,564	(21,718)
Total general government	<u>4,355,826</u>	<u>4,314,201</u>	<u>41,625</u>
Public safety:			
Building	956,273	956,509	(236)
Police	6,755,544	6,860,219	(104,675)
Total public safety	<u>7,711,817</u>	<u>7,816,728</u>	<u>(104,911)</u>
Public works:			
Highways and streets	977,300	949,555	27,745
Sanitation	2,139,540	2,078,913	60,627
Total public works	<u>3,116,840</u>	<u>3,028,468</u>	<u>88,372</u>
Culture and recreation	<u>2,085,751</u>	<u>2,090,778</u>	<u>(5,027)</u>
Nondepartmental:			
Change in fair value of investments	-	60,465	(60,465)
<b>Total expenditures</b>	<u>17,270,234</u>	<u>17,310,640</u>	<u>(40,406)</u>
<b>Deficiency of revenues under expenditures</b>	<u>(7,322,954)</u>	<u>(6,058,168)</u>	<u>(1,264,786)</u>
<b>Other Financing Sources (Uses)</b>			
Appropriated fund balance	7,973,954	-	(7,973,954)
Transfers In	-	8,967,361	8,967,361
Transfers Out	(681,000)	(3,021,385)	(2,340,385)
Proceeds from the sale of capital assets	30,000	22,734	(7,266)
Proceeds from sale of bonds	-	-	-
<b>Total other financing sources and uses</b>	<u>7,322,954</u>	<u>5,968,710</u>	<u>(1,354,244)</u>
<b>Net change in fund balances</b>	-	(89,458)	(89,458)
Fund Balances - January 1	-	39,041	39,041
Fund Balances - December 31	<u>\$ -</u>	<u>\$ (50,417)</u>	<u>\$ (50,417)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2005**

	Business-Type Activities Enterprise Funds					Totals			Governmental Activities Internal Service Fund
	Electric	Water	Sewer	Parking		2005	2004	2005	2004
<b>Asset</b>									
<b>Current Assets:</b>									
Cash and cash equivalents	\$ 204,842	\$ 150,369	\$ 59,209	\$ 46,901	\$	\$ 461,321	\$ 2,902,767	\$ 123,710	\$ 54,969
Investments restricted:									
Customer deposits	497,055	-	1,800	-		498,855	478,545	-	-
Investments, unrestricted	1,700,628	3,118,342	4,312,471	37,233		9,168,674	20,183,703	-	34,022
Accounts receivable, net	2,784,704	596,889	401,655	-		3,783,248	3,808,207	-	-
Due from other funds	330,000	-	-	-		330,000	50,000	-	-
Inventory	780,624	72,712	2,539	-		855,875	768,971	17,184	9,085
Total current assets	6,297,853	3,938,312	4,777,674	84,134		15,097,973	28,192,193	174,916	98,056
<b>Noncurrent Assets:</b>									
Capital assets, net:									
Land	-	7,967,953	-	830,174		8,798,127	-	-	-
Construction in progress	-	15,710,804	-	-		15,710,804	10,158,095	-	-
Buildings	2,546,258	4,427,317	-	-		6,973,576	7,292,047	503,223	543,142
Improvements	5,199,424	4,703,590	5,739,714	619,056		16,261,784	16,267,291	-	-
Machinery and Equipment	333,725	294,615	1,520	225,030		854,890	853,631	85,421	-
Total noncurrent assets	8,079,408	33,094,279	5,741,234	1,674,260		48,589,181	43,350,391	588,644	104,489
Total Assets	\$ 14,377,261	\$ 37,032,591	\$ 10,518,908	\$ 1,758,394		\$ 63,687,154	\$ 71,552,584	\$ 763,560	\$ 745,687
<b>Liabilities</b>									
<b>Current Liabilities</b>									
Accounts payable	3,730,477	\$ 175,749	\$ 4,317	\$ 3,600	\$	\$ 3,914,143	\$ 1,880,647	\$ 43,977	\$ 28,917
Customer deposits	497,055	-	1,800	-		498,855	478,545	-	-
Compensated absences	4,042	2,673	-	-		6,715	9,081	1,978	613
Due from other funds	-	-	-	-		-	50,000	-	-
Due to other governments	-	-	39,103	-		39,103	193,448	-	-
Accrued interest payable	-	-	-	-		-	165,952	-	-
Notes payable	-	165,952	-	-		165,952	165,952	-	-
Bonds payable	-	725,000	-	26,587		26,587	32,466	-	-
Bond premium	-	6,474	-	-		6,474	710,000	-	-
Total Current Liabilities	4,231,574	1,075,848	45,220	30,187		5,382,829	3,526,613	45,955	29,530
<b>Noncurrent Liabilities</b>									
Compensated absences	26,908	21,328	-	5,844		53,980	49,615	6,968	5,520
Deferred revenue	-	2,406	1,140	-		3,546	2,796	-	-
Notes payable	-	-	-	10,941		10,941	37,001	-	-
Bonds payable	-	15,800,000	-	-		15,800,000	16,525,000	-	-
Bond premium	-	103,592	-	-		103,592	110,066	-	-
Total Noncurrent Liabilities	26,908	15,927,326	1,140	16,785		15,972,059	16,724,480	6,968	5,520
Total Liabilities	4,258,382	17,003,174	46,360	46,972		21,354,888	20,251,093	52,923	35,050
<b>Net Assets</b>									
Invested in Capital Assets, net of related debt	8,079,408	16,459,213	5,741,234	1,636,732		31,916,587	31,386,812	588,644	647,831
Unrestricted	2,039,471	3,570,204	4,731,314	74,690		10,415,679	19,914,679	121,993	63,006
Total Net Assets	10,118,879	20,029,417	10,472,548	1,711,422		42,332,266	51,301,491	710,637	710,837
Total Liabilities and Net Assets	\$ 14,377,261	\$ 37,032,591	\$ 10,518,908	\$ 1,758,394		\$ 63,687,154	\$ 71,552,584	\$ 763,560	\$ 745,687

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities Enterprise Funds			Totals			Governmental Activities Internal Service Fund	
	Electric	Water	Sewer	Parking	2005	2004	2005	2004
<b>Operating Revenues</b>								
Charges for service	\$ 34,642,289	\$ 4,803,171	\$ 3,268,176	\$ 611,803	\$ 43,125,439	\$ 40,764,576	\$ 1,208,513	\$ 1,125,936
Penalties and fees	115,505	38,425	25,251	36,735	216,916	206,514	-	-
Miscellaneous	15,929	15,677	323	-	31,929	19,487	-	-
<b>Total Operating Revenues</b>	<b>34,773,723</b>	<b>4,858,273</b>	<b>3,293,750</b>	<b>648,538</b>	<b>43,374,284</b>	<b>40,990,577</b>	<b>1,208,513</b>	<b>1,125,936</b>
<b>Operating Expenses</b>								
Personnel	1,651,702	1,450,906	-	298,504	3,401,112	3,282,947	433,161	420,535
Utility purchases	33,023,557	578,497	3,065,526	-	36,667,580	24,584,158	-	-
Materials and supplies	147,522	212,036	30,102	27,319	416,979	515,687	542,630	458,137
Contracted services	446,204	294,620	99,069	81,527	921,440	918,230	164,325	183,130
Depreciation	650,149	608,458	207,636	94,204	1,560,448	1,498,515	67,599	65,263
Other	73,806	2,241	-	3,909	79,956	76,118	798	207
<b>Total Operating Expenses</b>	<b>35,992,940</b>	<b>3,146,758</b>	<b>3,402,353</b>	<b>505,463</b>	<b>43,047,515</b>	<b>30,875,655</b>	<b>1,208,513</b>	<b>1,125,272</b>
<b>Operating Income (Loss)</b>	<b>(1,219,217)</b>	<b>1,511,514</b>	<b>(108,603)</b>	<b>143,075</b>	<b>326,769</b>	<b>10,114,922</b>	<b>-</b>	<b>664</b>
<b>Nonoperating Revenues (Expenses)</b>								
Interest and investment revenue	140,134	337,236	140,672	2,206	620,250	690,998	-	-
Decrease in fair value of investments	(106,027)	(84,508)	(132,402)	(1,106)	(324,041)	(57,185)	-	-
Amortization of bond premium	-	6,474	-	-	6,474	6,474	-	-
Interest expense	(28,228)	(663,805)	-	(2,636)	(694,669)	(697,532)	-	-
Loss on Sale of Capital Assets	-	-	-	-	-	(13,937)	-	-
Capital Grants	-	581,326	3,863	-	585,189	58,231	-	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>5,878</b>	<b>176,725</b>	<b>12,133</b>	<b>(1,534)</b>	<b>183,203</b>	<b>(42,951)</b>	<b>-</b>	<b>-</b>
<b>Income (Loss) Before Transfers</b>	<b>(1,213,339)</b>	<b>1,688,239</b>	<b>(96,470)</b>	<b>141,541</b>	<b>518,972</b>	<b>10,071,971</b>	<b>-</b>	<b>664</b>
Transfers In	22,299	190,864	-	-	213,163	3,240,502	-	-
Transfers Out	(7,002,360)	(2,300,000)	(400,000)	-	(9,702,360)	(10,795,000)	-	-
Change in Net Assets	(8,183,396)	(420,897)	(486,470)	-	(8,969,225)	(2,517,473)	-	-
<b>Total Net Assets - January 1</b>	<b>18,312,276</b>	<b>20,450,314</b>	<b>10,969,018</b>	<b>1,568,881</b>	<b>51,301,491</b>	<b>48,784,018</b>	<b>710,637</b>	<b>709,973</b>
<b>Total Net Assets - December 31</b>	<b>\$ 10,118,879</b>	<b>\$ 20,029,417</b>	<b>\$ 10,472,548</b>	<b>\$ 1,711,422</b>	<b>\$ 42,332,266</b>	<b>\$ 51,301,491</b>	<b>\$ 710,637</b>	<b>\$ 710,837</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MEMPHIS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund	
	Electric	Water	Sewer	Parish	2006	2005
<b>Cash Flows from Operating Activities</b>						
Receipts from customers and users	\$ 34,530,247	\$ 4,618,707	\$ 3,596,070	\$ 646,538	\$ 43,387,562	\$ 41,148,741
Receipts from interfund services provided	211,333	-	-	-	211,333	-
Customer deposits received	(191,023)	-	-	-	-	-
Customer deposits returned	15,496	-	-	-	-	-
Other operating receipts	(31,750,784)	18,175	322	-	32,428	19,487
Payments to suppliers for goods and services	(1,659,793)	(1,453,530)	(3,387,987)	(110,668)	(36,293,795)	(26,026,002)
Payments to employees for services	1,108,812	2,205,947	171,436	242,189	(3,399,111)	(3,286,002)
Net cash provided by operating activities	(28,228)	(330,000)	(330,000)	(330,000)	1,208,513	1,125,936
<b>Cash Flows from Noncapital Financing Activities</b>						
Interest paid	(28,228)	-	-	-	-	-
Interest fund	(330,000)	-	-	-	-	-
Repayments of interfund loans	22,298	100,864	50,000	(50,000)	213,163	3,240,502
Transfers in	(2,002,380)	(2,330,000)	(400,000)	-	(9,702,380)	(10,786,000)
Transfers out	(2,330,298)	(2,188,136)	(350,000)	(50,000)	(19,847,426)	(7,573,000)
Net cash (used) by noncapital financing activities	(597,577)	(6,008,667)	(4,257)	(120,541)	(6,786,242)	(1,533,732)
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchases of capital assets	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-
Capital grants received	-	591,326	3,863	-	595,189	58,231
Principal paid on capital debt	-	(710,000)	(31,509)	(31,509)	(771,509)	(721,562)
Interest paid on capital debt	-	(693,865)	(2,838)	(2,838)	(696,703)	(682,311)
Net cash (used) by capital and related financing activities	(597,577)	(6,850,346)	(394)	(155,119)	(7,612,433)	(2,817,014)
<b>Cash Flows from Investing Activities</b>						
Proceeds from sale of investments	8,700,000	3,970,879	-	-	10,670,879	1,111,133
Purchases of investments	(140,135)	(337,238)	(140,872)	(2,208)	(820,251)	(3,900,080)
Interest received	8,460,136	4,307,475	140,872	2,208	11,290,930	(890,992)
Net cash provided (used) by investing activities	8,460,136	4,307,475	140,872	2,208	11,290,930	(2,136,948)
<b>Net Increase (Decrease) in cash and cash equivalents</b>	11,181	(2,453,820)	(38,267)	39,280	(2,441,446)	(732,865)
<b>Cash and cash equivalents - January 1</b>	193,461	2,803,080	97,485	7,621	2,932,787	3,635,662
<b>Cash and cash equivalents - December 31</b>	\$ 204,642	\$ 150,360	\$ 59,228	\$ 46,901	\$ 467,321	\$ 18,786
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ (1,210,217)	\$ 1,511,514	\$ (109,653)	\$ 143,075	\$ 328,786	\$ 10,114,922
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	650,149	608,459	207,836	84,204	1,560,446	1,498,515
(Increase) decrease in assets:	(204,812)	(22,437)	275,942	-	47,663	177,851
Accounts receivable, net	(22,736)	-	-	-	-	(50,000)
Due from other funds	(8,768)	(1,244)	110	-	(22,736)	(40,026)
Allowance for uncollectible accounts	-	-	-	-	-	(8,118)
Inventory	20,310	-	-	-	20,310	-
Increase (decrease) in liabilities:	1,977,077	100,228	(48,006)	2,197	2,033,497	18,732
Customer deposits	16,062	7,379	-	2,712	1,000	(3,862)
Accounts payable	-	-	-	-	-	50,000
Compensated absences	-	-	-	-	-	2,815
Due to other funds	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	1,049	(164,345)	-	(154,345)	89,464
Total adjustments	2,228,129	895,433	280,038	96,113	3,400,712	1,740,646
<b>Net cash provided by operating activities</b>	\$ 1,108,912	\$ 2,206,947	\$ 171,435	\$ 242,189	\$ 3,727,462	\$ 11,855,897
<b>Noncash investments, capital, and financing activities:</b>						
(Decrease) in fair value of investments	(108,027)	(84,508)	(132,402)	(1,108)	(324,041)	(67,185)
Amortization of bond premium	-	6,474	-	-	6,474	-

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2005**

	<b>Pension and Self Insurance Trust Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 15,653
Investments	36,705,221
Contributions receivable	89,185
<b>Total Assets</b>	<b><u>\$ 36,810,059</u></b>
<b>Liabilities</b>	
Accounts payable	\$ 2,552
<b>Total Liabilities</b>	<b><u>2,552</u></b>
<b>Net Assets</b>	
Assets held in trust for employee post employment benefits	<b><u>\$ 36,807,507</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK  
STATEMENT OF CHANGES IN NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Pension and Self Insurance Trust Fund</b>
<b>Additions</b>	
Contributions:	
Employer contributions	\$ 1,253,304
State aid - police	231,254
Employee	369,212
Total contributions	<u>1,853,770</u>
Investments:	
Investment earnings	45,896
Net increase (decrease) in fair value of investments	<u>2,232,288</u>
Total investment earnings	<u>2,278,184</u>
Total additions	<u>4,131,954</u>
<b>Deductions</b>	
Benefits	2,064,891
Claims	139,227
Administrative expenses	302,607
Total Deductions	<u>2,506,725</u>
<b>Change in Net Assets</b>	<u>1,625,229</u>
<b>Net Assets - January 1</b>	35,182,278
<b>Net Assets - December 31</b>	<u><u>\$ 36,807,507</u></u>

The accompanying notes are an integral part of these financial statements.



## CITY OF NEWARK, DELAWARE

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1

##### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Newark complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

##### Financial Reporting Entity

The City of Newark, Delaware (the "City") was incorporated in 1852, under the provisions of the State of Delaware. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, streets, sanitation, utilities, health and social services, culture and recreation, public improvements, planning and zoning, and general administration.

The Governmental Accounting Standards Board established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the City's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships.

The City has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the City's financial statements. In addition, the City is not aware of any entity which would exercise such oversight which would result in the City being considered a component unit of the entity.

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. Eliminations of interfund activity have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the last are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. In addition, the fund financial statements present internal service funds and fiduciary funds by fund type.

Measurement Focus, Basis Of Accounting And Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. Agency funds report only assets and liabilities, as they do not have a measurement focus but do use the accrual basis of accounting.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For governmental fund types, the City considers all revenues to be available if they are collected within 60 days after fiscal year end. Revenues considered susceptible to accrual include property taxes, income taxes, franchise taxes, licenses, interest and dividend income, and grants associated with the current fiscal year. Only the portion of the special assessments receivable due within the current fiscal year is considered to be susceptible to accrual and recognized as revenue in the current fiscal year. All other revenue items are considered measurable and available only when cash is received by the City.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

The City reports the following major governmental funds:

General Fund – This fund is used to account for the general operating activities of the City. General government, public safety, public works, parks and recreation, and judiciary offices are financed through this fund with receipts from general property taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental and other revenue.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

Summary of Significant Accounting Policies (cont'd)

Capital Projects Fund – This fund is used to account for the design, construction and improvement of City buildings, land improvements, and the purchase and replacement of vehicles, machinery and equipment.

The City reports the following major proprietary funds:

Electric Fund – Used to account for the operation of an electric distribution system.

Water Fund – Used to account for the operation of a water supply system.

Sewer Fund – Used to account for the operation of a sewage collection system.

Parking Fund – Used to account for the operation of a municipal parking lot system.

The City also reports the following fund types:

Internal Service Fund – This fund is used to account for the operation of machinery, vehicle and building maintenance provided to other departments of the City on a cost-reimbursement basis.

Pension Trust Fund – This fund is used to account for the assets held by the Pension Program in a trustee capacity for the employees of the City. The Pension Program, which is part of the City's legal entity, is a single-employer defined benefit pension plan that provides benefits to City employees.

Self-Insurance Trust Fund – This fund accounts for post-employment benefits paid on behalf of retirees of the City.

All governmental and business-type activities and enterprise funds of the City follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The City also has the option to follow subsequent private-sector guidance for its business-type activities and enterprise funds with certain limitations, but has elected not to do so.

With limited exceptions, the effects of interfund activity have been eliminated from the government-wide financial statements. Exceptions include charges by one governmental function to another where services have been provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water, sewer and parking proprietary funds and the maintenance internal service fund are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use in certain programs, it is the City's policy to apply cost-reimbursement grant resources first to those programs, followed by bond proceeds, categorical block grants and then by general revenues, as they are needed.

Cash And Cash Equivalents

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Allowance For Doubtful Accounts

The City of Newark's water, sewer and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Accordingly, an allowance for doubtful accounts is funded annually at the rate of .1 percent of annual revenues, excluding adjustment, penalties and miscellaneous revenues. This amount approximates actual losses. Only balances that remain after tax sales are written off each year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts is funded annually at the rate of .2 percent of annual revenues, excluding adjustments, penalties and miscellaneous revenues. This amount approximates the City's actual loss experience. Receivables containing closed accounts are maintained for a period of five years. Each year all accounts from the oldest year on record are written off against the allowance. As of December 31, 2005, the allowance for doubtful accounts amounted to \$117,173 in the Electric Fund, \$28,849 in the Sewer Fund and \$21,740 in the Water Fund.

Inventories And Prepaid Items

Inventories of proprietary fund types are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets including property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has defined capital assets as assets with a minimum cost of \$3,000 and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the estimated useful lives of the related assets. The City generally uses the following estimated useful lives unless an asset's life has been adjusted based on actual experience:

Buildings	20-40 years
Electric System	15-30 years
Sewer System	50 years
Water System	20-50 years
Improvements	10-20 years
Equipment	5-10 years

Compensated Absences

City employees earn vacation and sick leave depending on their length of service. Sick leave is accumulated at the rate of 15 days per year. Any unused sick leave is paid annually at the rate of one day for every three days accumulated in excess of 90 days. Employees have no vested interest in unused sick leave at termination and, accordingly, the City has no such liability. After 10 years of service, employees may carry forward up to two weeks of vacation time which, if unused, is paid at time of leaving the City. Compensatory time is accumulated as earned, with any unused amounts being paid at time of leaving the City.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In the fund financial statements, governmental fund types recognize bond premiums, discounts and bond issuance costs during the current financial period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets And Fund Equity

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Assets are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund.

In the governmental fund financial statements, reservations of fund balance represent amounts that are legally restricted by outside parties for use for a specific purpose or are otherwise not available for appropriation. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a five percent penalty for nonpayment and one and one-half percent interest per month thereafter. The City bills and collects its own property taxes. City property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2005 was 45 cents per \$100 of assessed value.

Use Of Estimates In The Preparation Of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2      STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONT'D)

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The City Council adopts legal annual budgets for the General Fund, Proprietary Funds, certain Special Revenue Funds and the Debt Service Fund. The City Council also adopts legal project length budgets for its Capital Projects Funds and certain Special Revenue Funds. Since project periods may differ from the City's fiscal year, a comparison of budgetary information for the combined Capital Projects Funds and certain Special Revenue Funds would not be meaningful and has not been presented in the accompanying financial statements.
- c. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the public safety department of the general fund by \$104,911 and in the culture and recreation department of the general fund by \$5,027. These over-expenditures were funded by greater than anticipated revenues in the general fund.

Deficit Fund Equity

The General Fund had a deficit fund balance of \$50,417 as of December 31, 2005. Extraordinary circumstances resulted in operating losses in the electric and sewer utility funds that limited cash available for operating transfers that typically support general governmental activities.

NOTE 3

CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a written policy for custodial credit risk. At December 31, 2005, the carrying amount of the City's cash accounts and cash on

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3

CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

hand was \$1,925,852. The bank balances were \$1,493,460. Of the bank balances, \$200,000 was covered by Federal Depositary Insurance. The remaining balance of \$1,293,460 was secured by collateral consisting of uninsured and unregistered investments held by the pledging financial institution but not in the City's name.

The above does not include pension fund deposits reflected in Note 9.

Investments

The City's investments are reported at fair value. The City is authorized to invest in United States government securities; federal agency securities; certificates of deposit, time deposits and bankers acceptances; corporate debt instruments; repurchase agreements; money market mutual funds; the pooled investment fund known as the Delaware Local Government Investment Pool (DELGIP) as authorized by Title 29, Chapter 12 of the Delaware Code; municipal obligations that are rated in either of the two highest rating categories by a nationally recognized rating agency; and guaranteed investment contracts. Amounts that may be invested in any one of these categories are subject to percentage limitations as set forth in the City's written investment policy.

As of December 31, 2005, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More Than Ten Years</u>
U.S. Government Securities	\$ 2,624,827	\$1,317,482	\$ 1,307,345	\$ -	\$ -
Federal Agency Securities	9,692,624	2,074,884	7,500,214	-	117,526
Corporate Notes	1,737,933	1,245,478	492,455	-	-
Certificates of Deposit	4,353,638	349,561	2,207,897	1,424,124	372,056
Money Funds	185,661	185,661	-	-	-
<b>TOTAL</b>	<b>\$18,594,683</b>	<b>\$5,173,066</b>	<b>\$11,507,911</b>	<b>\$1,424,124</b>	<b>\$ 489,582</b>

Investments in United States Government Securities, Federal Agency Securities and Certificates of Deposit are insured, registered, or held by the City or its agent in the City's name.

Credit Risk

The City has no policy regarding credit risk for U.S. Government Securities or Federal Agency Securities.

The City's investments in U.S. Government securities (U.S. Treasury notes) are rated AAA by Standard & Poor's as of December 31, 2005. The City's investments in federal agency securities are comprised of Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank (FHL), Federal Farm Credit Banks and Federal National Mortgage Association (FNMA) securities. These securities are rated AAA by Standard & Poor's as of December 31, 2005.



CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

The City's investments in corporate notes are rated AA by Standard & Poor's as of December 31, 2005.

Interest Rate Risk

Interest rate risk is the possibility that an interest rate change could adversely affect an investment's fair value.

The City's investment policy regarding maximum maturity of investments requires the maintenance of adequate liquidity to meet cash flow needs of the City. The portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The portfolio is invested in permitted investments with a stated maturity of no more than five years from the date of purchase unless the security is matched to a specific obligation or debt of the City. To control volatility of the portfolio, the City determines a duration target for the portfolio, not to exceed three years.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

All investment securities purchased by the City or held as collateral on deposits or investments are held in third-party safekeeping at a qualified financial institution that is not a counterparty to the investment transaction.

All securities in the City investment portfolio are held in the name of the City and are free and clear of any lien.

Appropriate City officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the City are bonded.

Concentration of Credit Risk

Concentration of credit risk is the inability to recover the value of deposits, investments or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer).

The City's portfolio is diversified to limit exposure to any one issuer. No more than five percent of the City's portfolio is invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each federal agency	25% maximum
Time deposits fully insured by FDIC/FSLIC	10% maximum

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

Each repurchase agreement counterparty	25% maximum
Money market mutual fund	25% maximum
DELGIP	25% maximum

Investments in Issuers that represent five percent or more of total Investments at December 31, 2005 are as follows:

<u>Investment/Issuer</u>	<u>Concentration Risk</u>	
	<u>Distribution</u>	<u>Fair Value</u>
FNMA	13%	\$2,384,307
Federal Home Loan Mortgage Corp	11%	2,065,853
Federal Home Loan Bank	16%	2,965,531
Federal Farm Credit Banks	12%	2,276,935
United States Government Securities	14%	2,624,827
Corporate Notes	9%	1,737,933
Certificates of Deposit	23%	4,353,838

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,989,380	\$ -	\$ -	\$ 4,989,380
Total Capital Assets Not Being Depreciated	4,989,380	-	-	4,989,380
Capital Assets Being Depreciated:				
Buildings	9,137,252	144,191	-	9,281,443
Improvements	11,697,187	824,289	-	12,521,476
Machinery and equipment	8,382,408	1,134,646	(497,114)	9,019,940
Total Capital Assets Being Depreciated	29,216,847	2,103,126	(497,114)	30,822,859
Less accumulated depreciation for:				
Buildings	3,042,606	255,269	-	3,297,875
Improvements	3,370,483	296,715	-	3,667,198
Machinery and equipment	5,360,520	919,055	(469,956)	5,809,619
Total Accumulated Depreciation	11,773,609	1,471,039	(469,956)	12,774,692
Total Capital Assets Being Depreciated, Net	17,443,238	632,087	(27,158)	18,048,167
Governmental Activities Capital Assets, Net	\$22,432,618	\$ 632,087	\$ (27,158)	\$23,037,547
<u>Business-type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 8,788,127	\$ -	\$ -	\$ 8,788,127
Construction-in-progress	10,159,095	5,551,709	-	15,710,804
Total Capital Assets Not Being Depreciated	18,947,222	\$5,551,709	\$ -	\$24,498,931

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u> (cont'd)				
Capital Assets Being Depreciated:				
Buildings	15,620,251	240,639	-	15,860,890
Improvements	31,078,482	745,472	-	31,823,954
Machinery and equipment	1,882,242	251,420	(114,824)	2,018,838
Total Capital Assets Being Depreciated	48,580,975	1,237,531	(114,824)	49,703,682
Less accumulated depreciation for:				
Buildings	8,328,205	559,109	-	8,887,314
Improvements	14,811,195	750,975	-	15,562,170
Machinery and equipment	1,028,408	250,364	(114,824)	1,163,948
Total Accumulated Depreciation	24,167,808	1,560,448	(114,824)	25,613,432
Total Capital Assets Being Depreciated, Net	24,413,167	(322,917)	-	24,090,250
Business-type Activities Capital Assets, Net	\$43,360,389	\$5,228,792	\$-	\$48,589,181

Depreciation expense was charged to the functions as follows:

General Government	\$ 333,235
Public Safety	366,329
Public Works	543,191
Culture and Recreation	160,686
Capital assets held by the government's internal service funds are charged to the various functions based on their usage	67,598
Total Depreciation Expense - Governmental Activities	<u>\$ 1,471,039</u>
Business-type Activities:	
Electric	650,149
Water	608,459
Sewer	207,636
Parking	94,204
Total Depreciation Expense - Business-type Activities	<u>\$ 1,560,448</u>

NOTE 5 LONG-TERM DEBT

General Obligation Bonds

General obligation bonds have been issued for both governmental and business-type activities. All bonds outstanding on December 31, 2005 are general obligation debt supported by the full faith and credit of the City.

The 2000 Series General Obligation Bonds were issued to partially reimburse funds advanced for the acquisition of a reservoir site and adjacent open space and to pay the costs of issuing the bonds. The bonds mature September 1, 2003 through September 1, 2020 and bear interest rates that vary from 4.6 percent to 5.1 percent, payable March 1 and September 1. Property tax revenues will be used to pay the principal and interest due on the bonds.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5      LONG-TERM DEBT (cont'd)

The 2002 Series General Obligation Bonds were issued to provide funds for the construction of a water reservoir and South Wellfield water treatment plant and to pay the costs of issuing the bonds. The bonds mature September 15, 2003 through September 15, 2022 and bear interest at rates that vary from 2.0 percent to 4.5 percent, payable March 15 and September 15. Water service fees will be used to pay the principal and interest due on the bonds.

The 2004 Series A General Obligation Bonds were issued to provide funds necessary for the current refunding of the City's General Obligation Bonds, Series of 1993. The bonds mature January 15, 2005 through January 15, 2010 and bear interest at a rate of 2.41 percent, payable January 15 and July 15. Property tax revenues will be used to pay the principal and interest due on the bonds.

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 3,870,000
Business-type activities	<u>16,525,000</u>
	<u>\$20,395,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 495,000	\$ 143,018	\$ 725,000	\$ 646,055
2007	490,000	129,080	745,000	627,930
2008	480,000	115,042	765,000	605,580
2009	450,000	101,263	790,000	582,630
2010	285,000	89,718	815,000	558,930
2011-2015	730,000	343,825	4,515,000	2,283,450
2016-2020	940,000	145,645	5,545,000	1,301,920
2021-2022	-	-	2,625,000	177,370
	<u>\$ 3,870,000</u>	<u>\$ 1,067,591</u>	<u>\$16,525,000</u>	<u>\$6,783,865</u>

The City also has a note with Wilmington Trust Company, Inc. at 80 percent of the national commercial rate, used for the purchase of 38,000 square feet of real estate known as Lot #1. The payments of principal and interest are \$2,881 each month, with the final payment scheduled for September 2007. The loan is collateralized by Lot #1 land.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 5**      **LONG-TERM DEBT** (cont'd)

Annual debt service requirements to maturity for the note payable are as follows:

Year Ending December 31	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 26,587	\$ 1,456
2007	10,941	307
	<u>\$ 37,528</u>	<u>\$ 1,763</u>

**NOTE 6**      **CHANGES IN LONG-TERM LIABILITIES**

Long term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 4,375,000	\$ -	\$ (505,000)	\$ 3,870,000	\$495,000
Compensated absences	406,993	1,084,161	(1,058,109)	433,045	62,557
Governmental activities long-term liabilities	<u>\$ 4,781,993</u>	<u>\$1,084,161</u>	<u>\$ (1,563,109)</u>	<u>\$ 4,303,045</u>	<u>\$557,557</u>
Business-type activities:					
Bonds payable	\$17,235,000	\$ -	\$ (710,000)	\$16,525,000	\$725,000
Plus: deferred amounts - bond premium	116,540	-	(6,474)	110,066	6,474
Total bonds payable	17,351,540	-	(716,474)	16,635,066	731,474
Note payable	69,467	-	( 31,939)	37,528	26,587
Compensated absences	58,696	254,143	(252,144)	60,695	6,715
Business-type activities long-term liabilities	<u>\$17,479,703</u>	<u>\$ 254,143</u>	<u>\$ (1,000,557)</u>	<u>\$16,733,289</u>	<u>\$764,776</u>

The fund responsible for incurring the compensated absences pays the obligation. The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. As of December 31, 2005, \$8,946 of internal service funds compensated absences is included in the above amounts.

**NOTE 7**      **INTERFUND TRANSFERS**

The composition of interfund transfers as for the year ended December 31, 2005 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 8,967,360	\$ 3,021,385
Capital Projects Fund	2,117,508	-
Nonmajor governmental funds	1,862,405	436,691
Electric Fund	22,299	7,002,360
Water Fund	190,864	2,300,000
Sewer Fund	-	400,000
Total Transfers	<u>\$13,160,436</u>	<u>\$13,160,436</u>

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 INTERFUND TRANSFERS (cont'd)

Prior to 1996, the City maintained a single operating fund. Since 1996, an annual operating transfer of electric utility revenues is made to the General Fund. Water rates adopted on July 1, 2001 also include \$400,000 in annual support for the General Fund. The City's policy is that general revenues should support 50 percent or more of total General Fund expenditures, with the balance of support funded by operating transfers from the enterprise funds.

NOTE 8 FUND BALANCE

Amounts are reserved for the following purposes:

Debt service fund	\$ 46,619 (for debt service payments)
Special revenue fund - law enforcement	\$ 535,711 (for police grant projects)
Capital projects	\$ 4,760,891 (for approved capital projects)
Streets	\$ 724,930 (for street maintenance)
Parks and recreation	\$ 153,222 (for parks and recreation)

NOTE 9 PENSIONS

Plan Description

Substantially all full-time employees of the City are covered by the Amended Pension Plan for Employees of the City of Newark, Delaware, created and operated under Section 2.98 of the City Code. This is a single-employer defined benefit pension plan accounted for as a pension trust fund and administered by the City Council sitting as the Board of Trustees. The defined benefit pension plan is reported in the City's financial statements and is not included in the report of any other public employee retirement system or other entity. Each year on January 1, William M. Mercer, Incorporated, prepares a complete Pension Plan Actuarial Valuation Report that is available for review in the Finance Department. On a quarterly basis, Frank Russell Trust Company prepares a performance monitoring report on the investment returns of plan assets. Finance Department staff prepare a separate report which, along with those of the consultants, is transmitted to the Board of Trustees, discussed at regular public meetings and made available for review in the Finance Department.

All full-time municipal employees are eligible to enroll in the plan immediately upon hire. Prior service as a part-time or temporary employee is not considered.

Although plan assets are collectively managed and administered, the plan is actually a combination of three plans with distinctly different levels of benefits. Even though there are three benefit levels, all plan assets are available to pay benefits to any plan member. The three plans are:

1. Non-Police - civilian, non-sworn, regular, full-time employees
2. Police - all sworn police officers except the Chief of Police
3. Special Police - the Chief of Police

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9

PENSIONS (cont'd)

Non-Police and Special Police employees are entitled to a benefit at 2.1 percent of their final average compensation comprised of base pay plus longevity times years of credited service. For Exempt and Special Police employees, final average compensation equals the average of the employee's 60 highest paid consecutive months of City employment. For members of the International Union of Electrical Workers (white collar) and the American Federation of State, County and Municipal Employees (blue collar), final average compensation equals the average of the employee's 36 highest paid consecutive months of City employment. For Non-Police employees the normal retirement date is the first day of the month coinciding with or next following the latter of the fifth anniversary of the member's plan participation date or the member's 65th birthday. For Special Police the normal retirement date is the later of the employee's 50th birthday or the employee's fifth anniversary of participation in the Plan. The Plan permits early retirement for Non-Police employees at age 55 with the completion of 15 or more years of credited service. The early retirement benefit is actuarially reduced unless the sum of years of service and age is equal to 85. There are no early retirement options for Special Police.

Police employees are entitled to a benefit calculated at different rates. For service prior to January 1, 1978, a benefit at 2.2 percent of the final average compensation (the average of the employee's 36 highest paid consecutive months of employment with the City) comprised of base pay plus longevity times years of credited service. For service from January 1, 1978 through December 31, 1987, service credits accumulate at the rate of 2.25 percent for each year of service. For service after December 31, 1987 service credits accumulate at the rate of 2.5 percent for each year of service. Police employees are limited to a maximum accrual of service credits in the amount of 62.50.

A Police employee hired on January 1, 1976 would accumulate maximum service credits in the amount of 62.5 percent through December 31, 2005 as illustrated below:

1976-1977	2 Years	X	2.2% per Year	4.4%
1978-1987	10 Years	X	2.25% per Year	22.5%
1988-2005	18 Years	X	2.5% per Year	45.0%
Subtotal				71.9%
MAXIMUM ALLOWABLE SERVICE CREDIT				62.5%

Normal retirement for Police employees hired before January 1, 1989 is the earlier of (1) the later of the employee's 50th birthday or the fifth anniversary of the member's date of participation in the plan or (2) the completion of 20 years of credited service as a Police employee. For a Police employee hired after January 1, 1989, normal retirement occurs upon the completion of 25 years of credited service as a contributing member. A Police member who has completed 15 or more years of credited service and who terminates employment no more than five years prior to the member's normal retirement date shall be eligible to receive a retirement pension benefit commencing on the first of the month following the member's normal retirement date.

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9      PENSIONS (cont'd)

Each employee who is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment may be eligible for a disability pension equal to the employee's accumulated service credits, reduced by any benefits paid under the City's long-term disability insurance program. Police and Special Police employees whose disability results from the discharge of their official duties shall receive pension benefits of not less than 75 percent of their prior December 1 compensation, reduced by any benefits paid under any worker's compensation law, the City's long-term disability insurance program and 50 percent of actual Social Security Act disability benefits.

If a member terminates employment before becoming eligible for any other benefits under the plan, the member is entitled to a complete refund of the employee's pension contributions. The contributions are refunded with interest, which accumulates at the rate of four percent annually.

With five years or more of credited service, eight vested benefit options of equivalent actuarial value are available as follows:

1. A retirement benefit for the remainder of the employee's life.
2. A retirement benefit for a minimum of five years and then only for the rest of the member's life. If the member does not live for five years after terminating employment, then the beneficiary would continue to receive the benefit for the remainder of the five-year period.
3. A retirement benefit for a minimum of 10 years and then only for the rest of the member's life. If the member does not live for 10 years after terminating employment, then the beneficiary would continue to receive the benefit for the remainder of the 10-year period.
4. A retirement benefit for a minimum of 15 years and then only for the rest of the member's life. If the member does not live for 15 years after terminating employment, then the beneficiary would continue to receive the benefit for the remainder of the 15-year period.
5. A survivor benefit equal to 50 percent of the employee's benefit after the member's death.
6. A survivor benefit equal to 66-2/3 percent of the employee's benefit after the member's death.
7. A survivor benefit equal to 75 percent of the employee's benefit after the member's death.
8. A survivor benefit equal to 100 percent of the employee's benefit after the member's death.



CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 PENSIONS (cont'd)

The contribution percentage for Non-Police and Special Police employees in 2005 was 2.5 percent of current base and longevity pay earned throughout the year. Police employees of the City are required to contribute to the plan at a percentage of their base and longevity pay as determined on December 1 of the preceding year.

The contribution rate is equal to the previous calendar year actuarially recommended employer contribution rate for the Police employees, provided that it does not exceed 6.0 percent and that it does not increase more than 2.0 percent over the previous year's rate. The Police employee contribution rate was 6.0 percent in 2005.

Annual Pension Cost

The City is required to make annual contributions based on an actuarially computed percentage of covered wages in amounts sufficient to cover normal costs of benefits and amortize the prior service liabilities over a period of 15 years. The annual required contribution for the current year was determined as part of the January 1, 2005 actuarial valuation using the entry age cost method as defined in Section B of GASB Statement No. 27. Since 1994, the City has made excess contributions of \$104,549 over its annual required contribution. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a three-year period. The unfunded actuarial liabilities are amortized over a closed 15-year period from the valuation date at the valuation rate of 7.5 percent.

Annual required contribution	\$ 1,453,304
Interest on net pension obligation	4,377
Adjustment to annual required contribution	<u>(6,610)</u>
Annual pension cost	1,451,071
Contributions made	1,484,557
Increase in net pension obligation	(33,486)
Net pension obligation, beginning of year	<u>(541)</u>
Net pension obligation, end of year	<u>\$ (34,027)</u>

During the year ended December 31, 2005, the plan experienced a 2.5 percent increase in its unfunded actuarial liability. The unfunded actuarial accrued liability increased \$124,020 for Police, \$105,134 for Non-Police and \$229,154 for the Plan as a whole. City costs increased .70 percent. As a percentage of payroll, the 2005 City contribution has decreased slightly from 2004 (and budget 2005) levels. Investment returns on assets were below actuarial assumptions, producing a net investment loss. 2004 City and State contributions were less than the recommended amount. This was partially offset by higher than expected employee contributions. The impact of the lower than expected plan assets was more than offset by an increase in the number of

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 PENSIONS (cont'd)

employees working past their assumed retirement age. The result is a decrease in the City's normal cost for 2005; this is likely a short-term event that will reverse itself as these employees retire and are replaced by younger workers.

There were no assumption or plan changes for the 2005 valuation. Significant actuarial assumptions used in determining the net pension benefit obligation include: (a) rate of return on the investment present and future assets of 7.5 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year, (c) a 2.5 percent employee contribution rate for non-police and a rolling three-year average of the prior three years actual contribution rates for police, and (d) the assumption that benefits will not increase after retirement. Assumptions for inflation are implicit in assumptions for the investment rate of return salary increases, and employee contributions. The City's annual employer pension cost for the fiscal year ended December 31, 2005 was \$1,451,071. The contributions for the year by various City funds totaled \$1,484,558 including \$231,254 of funds provided by the State of Delaware.

Plan Membership

As of January 1, 2005, the most recent actuarial valuation, employee membership consisted of:

<u>Participants</u>	<u>Police</u>	<u>Non-Police and Special Police</u>	<u>Total</u>
Active employees	59	160	219
Retired and disabled members receiving benefits	50	64	114
Vested terminated members not receiving benefits	<u>1</u>	<u>8</u>	<u>9</u>
<b>TOTAL</b>	<b><u>110</u></b>	<b><u>232</u></b>	<b><u>342</u></b>

The City's total payroll for all employees covered by the Plan for the current year was \$10,720,609. Participation in the Plan is voluntary and virtually all eligible employees have chosen to participate.

Plan Assets

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. In 2001, the City hired the Frank Russell Trust Company to manage the investment of pension plan assets. The Russell Company maintains numerous commingled investment funds for qualified public employee pension plans. These investments are not categorized according to the level of risk assumed at year end because they are not represented by securities.

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9      PENSIONS (cont'd)

Total assets and net assets available for benefits as of December 31, 2005 consisted of the following :

Fixed Income mutual funds	\$14,223,791
Large cap equity mutual funds	12,821,605
International equity mutual funds	5,536,999
Small cap equity mutual funds	1,724,542
Government securities fund	887,050
	<u>\$35,193,987</u>

Administrative Costs

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged and paid by short-term assets of the plan.

Concentration of Plan Assets

As of December 31, 2005 there were no individual investments, other than those backed by the U.S. Government, which constituted five percent or more of the plan's net assets.

Required Supplementary Information –  
Municipal General Employees Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
1/1/05	\$32,017,782	\$41,509,811	\$9,492,029	77.13%	\$10,720,609	88.54%
1/1/04	30,089,369	39,352,244	9,262,875	76.46%	10,323,409	89.73%
1/1/03	28,809,165	36,418,942	7,609,777	79.11%	9,537,252	79.78%
1/1/02	28,999,363	33,307,942	4,308,579	87.06%	9,177,126	46.95%
1/1/01	27,817,800	31,280,847	3,463,047	88.93%	8,941,662	38.73%
1/1/00	26,547,363	29,242,802	2,695,439	90.78%	8,347,748	32.29%

**CITY OF NEWARK, DELAWARE**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9      PENSIONS (cont'd)**

**Schedule of Contributions From Employer and Other Contributing Entities**

Year Ended December 31	Annual Required Contribution	City Contribution	Percentage Contributed
2005	\$1,453,304	\$1,484,558	102.16%
2004	1,438,278	1,374,838	95.59%
2003	1,225,756	1,176,223	95.96%
2002	866,610	932,343	107.59%
2001	844,193	867,436	102.75%
2000	746,566	755,350	101.18%
1999	692,368	690,944	99.79%
1998	548,558	518,018	94.43%
1997	473,334	468,840	99.05%
1996	483,638	521,686	107.87%

**NOTE 10      RISK MANAGEMENT**

The City maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials and crime. There has been no significant change in coverage during the past year. There have been no losses above insurance limits during the last four years.

The City is self-insured for worker's compensation; however, medical costs related to on-the-job injuries are covered by the City's health insurance provider. The City's compensation payments are calculated based upon a written policy administered by the City. The City maintains an internal service fund for worker's compensation claims and deductible amounts paid to its insurance underwriters. That Self-Insurance Fund is included in these statements. Resources are allocated to this fund from operating funds. Historically, the City has experienced very few individual claims. On December 31, 2005, there were three outstanding claims and none pending.

The City has requested a proposal from an actuarial consultant to determine if it is possible to estimate future claims and liabilities based on available data.

Fiscal Year	Aggregate Liability for Claims 01/01/04	Current Year Claims	Actual Claims Payments	Aggregate Liability for Claims 12/31/05
2005	-	\$139,227	\$139,227	-
2004	-	14,252	14,252	-
2003	-	60,220	60,220	-
2002	-	44,770	44,770	-

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11      DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

The IRC Section 457 was amended by adding subsection (g), which required the City to amend its Deferred Compensation Plan (DCP) Trust Agreement. In December 1996, the City amended its DCP and amended its existing DCP Trust Agreement to comply with changes in the IRC.

The amended DCP provides that all assets and income of the DCP are held in the DCP Trust for the exclusive benefit of participants and their beneficiaries. Therefore, these assets will no longer be the sole property of the City and will not be subject to the claims of the City's general creditors. In addition, as a result of this change, the assets have been eliminated from the City's balance sheet as of January 1, 1999. All costs and expenses of administering the plan are borne by the participants.

NOTE 12      POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits described in Note 9, the City provides certain limited post-retirement health care benefits for employees that meet eligibility requirements. These benefits were included in contracts negotiated with the City's employee bargaining units that became effective April 1, 2001. In exchange for a fixed contribution toward individual retiree health care premiums, the City obtained a long-term labor agreement, wage increases below the historical average, a redesign of health benefits and contributions toward active employee health insurance premiums. Currently, nine employees meet the eligibility requirements and are receiving a benefit. The cost of retiree health care is recognized as an expenditure in the Self-Insurance Trust Fund as premiums are paid. For the year ended December 31, 2005, those costs were \$106,546.

NOTE 13      RESERVOIR AND WATER SYSTEM IMPROVEMENTS

In 1999, the Newark City Council approved an updated Water System Master Plan that included construction of a reservoir near the White Clay Creek, an iron removal plant for the South Well Field and other measures designed to provide the City with a self-sufficient water supply. Later that year, the City initiated condemnation proceedings to acquire a 112-acre parcel adjacent to the City and its water treatment facility on the White Clay Creek. On November 2, 1999, Newark voters approved a bond referendum to finance the site acquisition by borrowing up to \$4.25 million.

In 2000, title to the site was acquired for \$7.95 million. The State of Delaware participated in the project with a capital contribution of \$3.4 million. Proceeds from a December 14, 2000 general obligation bond issue of \$2.7 million have allowed the

CITY OF NEWARK, DELAWARE  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 13      RESERVOIR AND WATER SYSTEM IMPROVEMENTS (cont'd)**

City to reimburse itself for all but \$2 million for which capital reserves were used. Debt service for the Series 2000 General Obligation Bond is provided from a \$.03 property tax increase of 7.7 percent that was adopted by City Council on November 13, 2000 as part of the 2001 operating budget. The new tax rate became effective on July 1, 2001.

On April 10, 2001, Newark voters passed an \$18.6 million general obligation bond referendum that included water rate increases of approximately 84 percent in order to support debt service, construction and operation of the water system. Public support for both projects was overwhelming; 82.8 percent voted in favor of building the reservoir and 86.5 percent voted in favor of building the water treatment facility. Water rates were increased approximately 84 percent on July 1, 2001 as advertised in the referendum.

The City issued its Series 2002 General Obligation Bonds on September 17, 2002. Wachovia Bank purchased the bonds on a competitive bid at the true interest cost of 3.946063 percent. Fitch Ratings assigned the rating AA that was enhanced to AAA by Wachovia's purchase of a bond insurance policy provided by Ambac Assurance Corporation. Moody's Investors Service assigned the uninsured rating of Aa3 and the insured rating of Aaa. On December 19, 2002, the City reimbursed itself in the amount of \$5,109,921 for reservoir and water treatment plant expenditures paid prior to the bond issuance date. This reimbursement was authorized by City Council Resolution 01-W dated November 12, 2001.

Since acquiring title to the reservoir site, the City has entered contracts totaling \$18,578,553 for the design and construction of the reservoir and an expanded water treatment facility for South Wellfield. City Council has determined that the size of the reservoir will be approximately 318 million gallons, large enough to provide virtually 100 percent reliability for droughts recorded during the past 100 years.

Construction began in June 2002 and was scheduled to be completed in December 2003. The general contractor hired to build the project stopped work in September 2003 and refused to complete performance, arguing that the project could not be built as designed. After attempts to mediate the dispute, the contract was terminated by the City in early 2004. The contractor filed a civil suit against the City in the U.S. District Court for Delaware alleging breach of contract, defamation and civil rights violations.

In November 2004, the City negotiated a new contract with a different company to complete the project for approximately \$6 million. The Newark Reservoir was completed in May 2006 and is fully operational. All water system improvements for which general obligation debt was issued are now complete. Approximately \$75,000 of the City's original budget for these projects remains available.

CITY OF NEWARK, DELAWARE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13      RESERVOIR AND WATER SYSTEM IMPROVEMENTS (cont'd)

The trial phase of the civil suit initiated by the terminated contractor in 2004 concluded on October 6, 2006. A federal jury awarded the plaintiff \$25 million in civil rights damages for preclusion of the contractor's right to pursue post-termination business without due process and approximately \$11 million in contract damages. This contractor had originally agreed to construct the reservoir for \$9.6 million and was paid \$6.2 million for work completed. The City had withheld payment of \$275,000 for invoices submitted and certified by the engineer of record. The verdict has not yet been entered by the Court pending ruling on outstanding motions. If this verdict is not set aside by the trial judge, the City will file its appeal in the Third U.S. Circuit Court of Appeals in Philadelphia, Pennsylvania when all post-trial motions have been ruled upon.

The City's insurance underwriter, St. Paul Travelers, has provided the defense of this case from the outset. St. Paul Travelers has no liability on contractual issues but has approximately \$7 million in liability for the civil rights portion of the verdict. St. Paul Travelers has an obligation to defend the City and has assigned new lawyers to pursue appellate action. The City Solicitor and the City's trial counsel believe that there is substantial reversible error in the Court's pre-trial rulings, trial rulings and jury instructions so as to yield a strong possibility of success on appeal. At the present time, trial counsel, augmented by a number of additional attorneys retained by St. Paul, are vigorously pursuing motions for new trial, for reconsideration of earlier rulings and for reductions of the amounts of the verdicts. The City Council has directed the Solicitor and the City's trial counsel to vigorously pursue every avenue of appeal.

## **SUPPLEMENTARY INFORMATION**



CITY OF NEWARK  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	Debt Service	Bond Fund Project #4	Bond Fund Project #6	Street Fund	Special Revenue Funds				Totals	
					Community Development Fund	Law Enforcement	Parks and Recreation		2005	2004
<b>ASSETS</b>										
Assets:										
Cash and cash equivalents	\$ 46,619	\$ 3,645	\$ 2,575	\$ 28,981	\$ 5,347	\$ 544,117	\$ 153,234	\$	784,518	\$ 238,063
Investments	-	943,256	703,085	-	-	-	-	1,646,341	1,646,341	1,840,538
Accounts receivable	-	-	-	676,870	128,894	9,107	-	814,871	814,871	1,194,593
Due from other funds	-	-	-	-	-	-	-	-	-	500,000
Inventory	-	-	-	22,051	-	-	-	-	22,051	14,993
<b>Total assets</b>	<b>\$ 46,619</b>	<b>\$ 946,901</b>	<b>\$ 705,660</b>	<b>\$ 727,902</b>	<b>\$ 134,241</b>	<b>\$ 553,224</b>	<b>\$ 153,234</b>	<b>\$</b>	<b>\$ 3,267,781</b>	<b>\$ 3,788,187</b>
<b>LIABILITIES AND FUND BALANCE</b>										
Liabilities:										
Cash Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	-	\$ 256,145
Accounts payable	-	3,962	-	2,972	4,241	5,425	12	16,612	16,612	115,364
Due to other funds	-	-	-	-	130,000	-	-	130,000	130,000	500,000
Other liabilities	-	-	-	-	-	12,088	-	12,088	12,088	14,267
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 3,962</b>	<b>\$ -</b>	<b>\$ 2,972</b>	<b>\$ 134,241</b>	<b>\$ 17,513</b>	<b>\$ 12</b>	<b>\$</b>	<b>\$ 158,700</b>	<b>\$ 885,776</b>
<b>Fund balances:</b>										
Reserved for capital projects	-	942,939	705,660	-	-	-	-	1,648,599	1,648,599	1,856,666
Reserved for debt service	46,619	-	-	-	-	-	-	46,619	46,619	46,303
Reserved for law enforcement	-	-	-	-	-	535,711	-	535,711	535,711	495,622
Reserved for streets	-	-	-	724,930	-	-	-	724,930	724,930	372,357
Reserved for parks and recreation	-	-	-	-	-	-	153,222	153,222	153,222	131,483
<b>Total fund balances</b>	<b>\$ 46,619</b>	<b>\$ 942,939</b>	<b>\$ 705,660</b>	<b>\$ 724,930</b>	<b>\$ 134,241</b>	<b>\$ 535,711</b>	<b>\$ 153,222</b>	<b>\$</b>	<b>\$ 3,109,081</b>	<b>\$ 2,902,411</b>
<b>Total liabilities and fund balances</b>	<b>\$ 46,619</b>	<b>\$ 946,901</b>	<b>\$ 705,660</b>	<b>\$ 727,902</b>	<b>\$ 134,241</b>	<b>\$ 553,224</b>	<b>\$ 153,234</b>	<b>\$</b>	<b>\$ 3,267,781</b>	<b>\$ 3,788,187</b>

CITY OF NEWARK  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Special Revenue Funds							Totals	
	Debt Service	Bond Fund Project #4	Bond Fund Project #6	Street Fund	Community Development Fund	Law Enforcement	Parks and Recreation	2005	2004
REVENUES									
Interest, dividends and rents	\$ -	\$ 29,862	\$ 19,611	\$ -	\$ -	\$ 520	\$ -	\$ 49,822	\$ 55,798
Intergovernmental revenues	-	-	-	863,061	349,775	219,338	33,897	1,566,071	2,310,975
Penalties and Fees	-	-	-	-	-	52,305	-	52,305	81,619
Charges for services	-	-	-	-	-	25,235	-	25,235	23,643
Total revenues	-	29,862	19,611	863,061	349,775	297,407	33,897	1,693,433	2,472,035
EXPENDITURES									
Current:									
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	212,318	-	212,318	223,210
Public Works	-	-	-	1,631,959	-	-	-	1,631,959	1,555,878
Community Development	-	-	-	-	349,775	-	-	349,775	520,893
Culture and recreation	-	-	-	-	-	-	12,138	12,138	17,924
Change in fair value of investments	-	28,274	17,923	-	-	-	-	44,197	7,648
Debt Service:									
Principal	505,000	-	-	-	-	-	-	505,000	480,000
Interest	157,089	-	-	-	-	-	-	157,089	208,542
Capital Outlay	-	-	-	-	-	-	-	-	-
Total expenditures	662,089	28,274	17,923	1,631,959	349,775	212,318	12,138	2,912,476	3,014,095
Excess (deficiency) of revenues over (under) expenditures	(642,089)	3,408	1,688	(668,898)	-	85,089	21,759	(1,219,043)	(542,060)
OTHER FINANCING SOURCES (USES)									
Payment to be refunded bond escrow agent	-	-	-	-	-	-	-	-	(2,005,000)
Bond issuance cost	-	-	-	-	-	-	-	-	(22,150)
Transfers in	662,405	-	-	1,200,000	-	-	-	1,862,405	3,003,200
Transfers out	-	(190,864)	(22,298)	(178,528)	-	(45,000)	-	(436,682)	(50,592)
Total other financing sources and uses	662,405	(190,864)	(22,298)	1,021,472	-	(45,000)	-	1,425,713	925,548
Net change in fund balances	316	(187,456)	(20,611)	352,573	-	40,089	21,759	208,670	383,488
Fund balances - January 1	46,303	1,130,395	726,271	372,357	-	495,822	131,483	2,802,411	2,518,923
Fund balances - December 31	\$ 46,819	\$ 942,939	\$ 705,660	\$ 724,930	\$ -	\$ 535,711	\$ 153,222	\$ 3,109,081	\$ 2,902,411

**CITY OF NEWARK**  
**COMBINING STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2005**

	Employees Pension Trust Fund	Self Insurance Fund	2005	2004
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 15,653	\$ 15,653	\$ 16,246
Investments	35,193,987	1,511,234	36,705,221	35,080,728
Contributions receivable	89,185	-	89,185	88,572
<b>Total Assets</b>	<b>\$ 35,283,172</b>	<b>\$ 1,526,887</b>	<b>\$ 36,810,059</b>	<b>\$ 35,185,546</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 2,552	\$ 2,552	\$ 3,268
<b>Total Liabilities</b>	<b>-</b>	<b>2,552</b>	<b>2,552</b>	<b>3,268</b>
<b>Net Assets</b>				
Assets held in trust for employee post employment benefits	<b>\$ 35,283,172</b>	<b>\$ 1,524,335</b>	<b>\$ 36,807,507</b>	<b>\$ 35,182,278</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NEWARK**  
**COMBINING STATEMENT OF CHANGES IN NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Pension Trust Fund	Self Insurance Fund	2005	2004
<b>Additions</b>				
Contributions:				
Employer contributions	\$ 1,253,304	\$ -	\$ 1,253,304	\$ 1,100,000
State aid - police	231,254	-	231,254	274,838
Employee	369,212	-	369,212	359,585
Total contributions	<u>1,853,770</u>	<u>-</u>	<u>1,853,770</u>	<u>1,734,423</u>
Investments:				
Investment earnings	-	45,896	45,896	53,034
Net increase (decrease) in fair value of investments	<u>2,273,545</u>	<u>(41,257)</u>	<u>2,232,288</u>	<u>3,009,390</u>
Total investment earnings	<u>2,273,545</u>	<u>4,639</u>	<u>2,278,184</u>	<u>3,062,424</u>
Total additions	<u>4,127,315</u>	<u>4,639</u>	<u>4,131,954</u>	<u>4,796,847</u>
<b>Deductions</b>				
Benefits	1,958,345	106,546	2,064,891	1,847,227
Claims	-	139,227	139,227	31,814
Administrative expenses	<u>302,607</u>	<u>-</u>	<u>302,607</u>	<u>262,327</u>
Total Deductions	<u>2,260,952</u>	<u>245,773</u>	<u>2,506,725</u>	<u>2,141,368</u>
Change in Net Assets	<u>1,866,363</u>	<u>(241,134)</u>	<u>1,625,229</u>	<u>2,655,479</u>
Net Assets - January 1	<u>33,416,809</u>	<u>1,765,469</u>	<u>35,182,278</u>	<u>32,526,799</u>
Net Assets - December 31	<u>\$ 35,283,172</u>	<u>\$ 1,524,335</u>	<u>\$ 36,807,507</u>	<u>\$ 35,182,278</u>

The accompanying notes are an integral part of these financial statements.